

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

California Water Service Company (U 60-W), for Authority to Increase Rates Charged for Water Service in the Antelope Valley District by \$437,218 or 36.94% in Fiscal Year 2006-2007; by \$145,000 or 8.94% in Fiscal Year 2007-2008; and by \$145,000 or 8.21% in Fiscal Year 2008-2009.

Application 05-08-006
(Filed September 8, 2005)

And Related Matters

Application 05-08-007
Application 05-08-008
Application 05-08-009
Application 05-08-010
Application 05-08-011
Application 05-08-012
Application 05-08-013
(Filed September 8, 2005)

SCOPING MEMO AND RULING OF ASSIGNED COMMISSIONER

Summary

California Water Service Company (CalWater) has filed these general rate increase applications seeking new rates in eight divisions for Test Year 2006/2007 and Escalation Years 2007/2008 and 2008/2009: Antelope Valley, Bear Gulch, Dominguez-South Bay, Hermosa-Redondo, Kern River Valley, Marysville, Palos Verdes, and Redwood Valley. A prehearing conference was held on September 9, 2005 at which the assigned Administrative Law Judge (ALJ) consolidated the applications. Pursuant to Rules 6(a)(3) and 6.3 of the Commission's Rules of Practice and Procedure, I am issuing this scoping memo

and ruling to confirm the proceeding category and need for hearing, establish the issues and timetable, and designate the principal hearing officer.

Scope of the Proceeding

This proceeding will address the following issues:

1. What revenue requirement, rate design, and rates should be adopted for each of CalWater's eight districts (or rate areas within a district) for Test Year 2006/2007; and what rate base should be adopted for Escalation Year 2007/2008?
2. What figures should the Commission adopt for the standard components underlying its adopted Test Year 2006/2007 revenue requirements and rate designs, including, but not limited to, for each district: customer numbers; growth and sales forecasts; revenues; expenses; plant in service; depreciation rates and reserves; rate base; tax rates and calculations; itemized summary of earnings at present and adopted rates; financial structure, cost of debt and equity, and return on rate base; quantities necessary for later offset calculations, etc.?
3. Should the Commission grant CalWater's request to establish revenue balancing accounts for some or all of these eight districts?
4. Should the Commission implement CalWater's proposal to establish a rate base equalization account under which rates for Antelope Valley, Kern River Valley, and Redwood Valley Districts would be set using CalWater's company-wide rate base per customer and the foregone revenues accumulated in a balancing or memorandum account to be recovered later from customers of all of CalWater's California districts? Alternatively, should the Commission implement a modified version of that proposal, or a different method, to ensure rates are affordable in CalWater's high-cost districts?
5. What synergies have resulted from the acquisition and merger of Dominguez Water Company, Kern River Valley Water

Company, and Antelope Valley Water Company by and into CalWater (Decision 00-05-047), and how should they be recognized in setting rates?

6. Should the Commission authorize any other relief, impose any requirements or conditions, or make any other findings in connection with its order in this general rate case? ¹

At the prehearing conference, certain key principles were conveyed on my behalf as guidance I expect the parties to heed. In summary, those are:

- (1) Ensuring safe water;
- (2) Securing reliable water supplies;
- (3) Encouraging and promoting water conservation; and
- (4) Ensuring reasonable rates and viable utilities.

As the proceeding moves forward, parties should develop the record with an eye toward explaining how the positions they take: (a) promote both reasonable rates and short and long term utility viability; (b) affect the utility's ability to ensure water quality in the short and long term; (c) increase customer and utility conservation incentives; (d) affect infrastructure development and investment; (e) moderate rate impacts on low income customers; and (f) make the Commission's regulatory and decision-making processes more timely and efficient.

¹ CalWater argued in its last general rate case for Redwood Valley District that an issue not specifically set forth in the Assigned Commissioner's Scoping Ruling was not properly part of the proceeding. The Commission rejected that argument. (D.03-04-040). The parties may during the course of this proceeding propose to address other issues that appropriately fall within the boundaries of a water general rate case. To the extent other parties may object, they may make motions to exclude those issues, but may not rely solely on an argument that this Scoping Ruling was not sufficiently specific as to an issue.

At the prehearing conference, the Office of Ratepayer Advocates (ORA) sought assurance that it would be allowed to propose measures to make water more affordable for low-income customers in these districts, and CalWater has already proposed a new rate base equalization account to moderate its proposed increases on all (not just low-income) customers in its highest-rate districts. The assigned ALJ gave that assurance, and I endorse it here. All parties are strongly encouraged to develop low-income proposals and present them for consideration in the proceeding.

I believe that reasonable parties should be able to discuss their differences and arrive at commonly agreed-upon positions on many, if not most or all, of their issues well in advance of the evidentiary hearings. The Commission's Rate Case Plan for Class A Water Utilities anticipates such discussion by providing additional time for what it terms "Formal Settlement Negotiations" beginning the week after the utility serves its rebuttal testimony. Waiting until all parties have hardened their positions before serious discussions begin, however, not only generates more work in preparing testimony on topics that might be settled, but makes it more likely that the parties will bring those hardened positions into the hearing room. To ensure the parties explore their differences early on, this Scoping Memo sets a date on which the parties are directed to meet and confer at an initial settlement session *before* finalizing their testimony, and a second prehearing conference at which they must report on their progress. CalWater and ORA shall arrange a mutually agreeable time and location for the initial settlement session. Both are required to attend the initial settlement session and second prehearing conference, and other formal parties are encouraged to do so.

The Rate Case Plan requires CalWater and ORA to prepare and submit a joint comparison exhibit at the time reply briefs are filed:

The applicant and ORA shall prepare and submit a Joint Comparison Exhibit showing complete comparison tables for the test and escalation years. The tables shall show each party's final position on each component of revenue requirement and shall identify all remaining major disputed issues, and the dollar amounts associated with each disputed issue. All major revisions to a party's position on an issue shall be explained. The tables shall consolidate the two test years and one attrition year methodology for capital additions with the one test year and two escalation years program for expenses to show a complete projected revenue requirement for each of the three years in the cycle. Final adjustments to balancing or memorandum accounts that have been approved by ORA may be incorporated in the Joint Comparison Exhibit. (D.04-06-018, Rate Case Plan Appendix at page 15).

In addition to this final comparison exhibit, CalWater and ORA are directed to prepare and submit a joint comparison exhibit at the beginning of evidentiary hearings comparing their current positions. The exhibit should show in a summary of earnings, in columnar format, each party's then-current position, with a column showing item by item differences. On an accompanying sheet, the major components of each difference figure are to be listed with a brief note tying them to the underlying issues. Where an item difference reflects only differences in estimates in other areas, a simple note to that effect is sufficient.

All parties are reminded that the evidentiary hearings are not a proper forum for discovery that could have been accomplished earlier through the normal discovery process. The parties are also put on notice that the scope of rebuttal testimony will be strictly circumscribed. CalWater must rely on the direct case it has submitted in its applications. No party will be allowed to introduce in rebuttal testimony new supporting evidence for its estimates or positions that does not directly rebut specific points raised by others in prior testimony.

Timetable

This proceeding is subject to the Commission's Rate Case Plan for Class A Water Utilities (Decision 04-06-018). At the prehearing conference, ORA stated it would file a motion seeking to vary from the Rate Case Plan schedule, and on September 21, 2005 it filed its Motion of the Office of Ratepayer Advocates to Establish a Schedule. When it was learned the following day that CalWater objected to ORA's recommended schedule, ORA immediately submitted an amended motion seeking to withdraw the first motion and proposing a new recommended schedule.

Although CalWater does not oppose ORA's second proposed schedule, adopting it would necessarily delay the Commission's decision from June 2006 to July 2006. ORA's motion is denied. Instead, the schedule set forth below calls for ORA and any intervenors to serve direct testimony and exhibits 11 days later than does the Rate Case Plan, begins hearings one week later than called for in the Rate Case Plan, and makes up the remaining time by shortening the period for opening briefs (to 21 days from 29). Adopting this schedule means the proceeding will be submitted for decision and the proposed decision placed before the Commission on the dates required by the Rate Case Plan schedule.

October, November 2005	Public participation hearings in district areas. Dates, times and locations to be provided later
November 17, 2005	Initial settlement session. Time and location to be arranged by CalWater and ORA.
November 30, 2005	Second prehearing conference in San Francisco. Time and location to be provided later.
December 19, 2005	Commission staff and other parties serve direct testimony and exhibits

January 9, 2006	CalWater serves rebuttal testimony.
January 13, 2006	Further settlement negotiations.
January 24-27, 2006	Evidentiary hearings in San Francisco. Times and locations to be provided later.
February 17, 2006	Opening briefs.
February 27, 2006	Reply briefs; proceeding submitted.
May 16, 2006	Proposed Decision filed. Comments on Proposed Decision (20 days after Proposed Decision filed). Reply Comments on Proposed Decision (five days following Comments).
June, 2006	Commission meeting to consider Proposed Decision.

Consistent with law, the issues raised in this Scoping Memo must be resolved within 18 months from today. (Pub. Util. Code § 1701.5(a).) However, it is my intention to resolve this proceeding within the shorter timeframe set forth in the Commission's Rate Case Plan for Class A Water Utilities and reflected in the timetable above.

Category and Need for Hearing

This ruling confirms that this is a ratesetting proceeding and that a hearing is required, as preliminarily determined in Resolution ALJ 176-3157.

Principal Hearing Officer

ALJ James McVicar is designated as the principal hearing officer (Rule 5(l)), and thus will be the presiding officer under Rule 5(k)(2).

Final Oral Argument Before the Commission

Any party wishing to exercise the right under Rule 8(d) to make a final oral argument before the Commission must file a written request and serve it on

all parties and the Assigned Commissioner and assigned ALJ not later than the last day of evidentiary hearing.

IT IS RULED that:

1. The issues to be considered are those described in this ruling.
2. Parties shall comply with the procedural guidance and direction set forth in the body of this ruling.
3. ORA's motion to withdraw its September 21, 2005 motion is granted. ORA's September 22, 2005 motion proposing a schedule that would delay the Commission's decision to a date later than called for in the Rate Case Plan is denied. The timetable for the proceeding is as set forth above.
4. This is a ratesetting proceeding.
5. A hearing is needed.
6. ALJ James McVicar is designated as the principal hearing officer.
7. Any party wishing to make a final oral argument before the Commission must file a written request and serve it on all parties and the Assigned Commissioner and assigned ALJ not later than the last day of evidentiary hearing.

Dated September 26, 2005, at San Francisco, California.

/s/ JOHN A. BOHN

John A. Bohn
Assigned Commissioner

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of the original attached Scoping Memo and Ruling of Assigned Commissioner on all parties of record in this proceeding or their attorneys of record.

Dated September 26, 2005, at San Francisco, California.

/s/ ELIZABETH LEWIS

Elizabeth Lewis

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

The Commission's policy is to schedule hearings (meetings, workshops, etc.) in locations that are accessible to people with disabilities. To verify that a particular location is accessible, call: Calendar Clerk (415) 703-1203.

If specialized accommodations for the disabled are needed, e.g., sign language interpreters, those making the arrangements must call the Public Advisor at (415) 703-2074, TTY 1-866-836-7825 or (415) 703-5282 at least three working days in advance of the event.